



CONGRESSIONAL BUDGET OFFICE COST ESTIMATE

November 19, 2003

H.R. 3365 **Military Family Tax Relief Act of 2003**

*As cleared by the Congress on November 5, 2003,
and signed into law on November 11, 2003*

SUMMARY

H.R. 3365, enacted as Public Law 108-121, increases the death gratuity for survivors of military personnel by \$6,000, retroactive to September 11, 2001, and excludes the entire amount from taxes. The act also provides homeowners who are members of the U.S. military and the Foreign Service with relief from capital gains taxes. In addition, H.R. 3365 extends customs user fees through March 1, 2005. Finally, the act provides individual taxpayers serving in the National Guard and Reserve with a deduction for certain overnight travel expenses, including meals and lodging, incurred while attending National Guard and Reserve meetings. The deduction may be taken by both taxpayers who itemize their deductions and those who do not.

The Joint Committee on Taxation (JCT) estimates that the legislation will reduce on-budget federal revenues by \$169 million in 2004, \$559 million over the 2004-2008 period, and about \$1.1 billion over the 2004-2013 period. JCT also estimates the act will reduce off-budget receipts by \$4 million over the 2004-2008 period and \$9 million over the 2004-2013 period.

CBO estimates that this act will reduce direct spending by \$599 million in 2004 and \$686 million in 2005.

ESTIMATED COST TO THE FEDERAL GOVERNMENT

The estimated impact of H.R. 3365 on revenues and direct spending is shown in the following table.

By Fiscal Year, in Millions of Dollars									
2004	2005	2006	2007	2008	2009	2010	2011	2012	2013

CHANGES IN DIRECT SPENDING

Estimated Outlays									
Increase in Death Gratuity	20	0	0	0	0	0	0	0	0
Extension of Customs User Fees	<u>-619</u>	<u>-686</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>
Total	-599	-686	0	0	0	0	0	0	0

CHANGES IN REVENUES

Estimated Revenues										
On-budget	-169	-94	-95	-99	-102	-104	-109	-111	-114	-116
Off-budget	<u>*</u>	<u>-1</u>	<u>-1</u>	<u>-1</u>	<u>-1</u>	<u>-1</u>	<u>-1</u>	<u>-1</u>	<u>-1</u>	<u>-1</u>
Total	-169	-95	-96	-100	-103	-105	-110	-112	-115	-117

NOTE: * = Less than \$500,000.

BASIS OF ESTIMATE

Revenues

All estimates were provided by JCT. Taken together, JCT estimates the act's provisions will reduce revenues by \$169 million in 2004, \$563 million over the 2004-2008 period, and about \$1.1 billion over the 2004-2013 period.

Most of the reduction in revenues will result from the provisions providing reservists with an above-the-line deduction allowance for travel expenses. JCT estimates that doing so will decrease governmental receipts by \$90 million in 2004, \$407 million over the 2004-2008 period, and \$851 million over the 2004-2013 period.

The remaining provisions will also decrease federal revenues. Those include:

- Providing certain homeowners who are members of the U.S. military and the Foreign Service relief from taxation of capital gains;
- Raising the exclusion for death gratuity payments for individuals in the military;

- Providing an exclusion for amounts received under the Department of Defense (DoD) Homeowners Assistance Program;
- Expanding combat zone filing rules to contingency operations;
- Extending section 501(c)(19) membership to certain relatives of military personnel;
- Permitting service academy appointments to be treated as scholarships for certain purposes;
- Suspending the tax-exempt status of terrorist organizations; and
- Extending the benefits available under the Victims of Terrorism Tax Relief Act of 2001 to astronauts who lose their lives in the line of duty.

As estimated by JCT, all of those remaining provisions together will reduce revenues by \$79 million in 2004, \$156 million over the 2004-2008 period, and \$271 million over the 2004-2013 period. A small portion of those reductions will apply to off-budget receipts. Under current law, amounts received under DoD's Homeowners Assistance Program are included when calculating gross income, and therefore are subject to income and Social Security taxes. By excluding such amounts from gross income, section 103 will reduce both on- and off-budget receipts. JCT estimates that the exclusion will decrease off-budget receipts by \$4 million over the 2004-2008 period and \$9 million over the 2004-2013 period.

Spending

Section 102 increases the death gratuity paid to survivors of military personnel from \$6,000 to \$12,000 and applies retroactively to deaths occurring on or after September 11, 2001. The additional payments for servicemembers who died before the bill was enacted are considered direct spending. (Future payments will be subject to the availability of appropriated funds.)

CBO assumes that the Department of Defense will make a second death gratuity payment of \$6,000 in fiscal year 2004 to those survivors who have already received the gratuity prior to the change. Based on data from DoD on the number of servicemembers who died in 2002 and 2003, assumptions about the number of deaths that occurred during the last three weeks of fiscal year 2001, and estimates of the number of deaths that occurred during the first month of fiscal year 2004, CBO estimates that DoD will pay about \$20 million in 2004 to about 3,400 survivors who have already received the smaller death gratuity.

Section 201 extends customs user fees through March 1, 2005. Previously, those fees were scheduled to expire after March 31, 2004. CBO estimates that extending those fees will increase offsetting receipts by \$1.3 billion over the 2004-2005 period.

PREVIOUS ESTIMATES

On February 10, 2003, CBO transmitted a cost estimate for the Armed Forces Tax Fairness Act of 2003, as ordered reported by the Senate Committee on Finance on February 5, 2003. That bill contained tax provisions similar to those in H.R. 3365. In addition, that bill contained provisions to extend Internal Revenue Service (IRS) user fees and to authorize the IRS to enter into installment agreements. H.R. 3365 does not contain those revenue-raising provisions, and our cost estimates reflect that difference.

On March 5, 2003, CBO transmitted a cost estimate for H.R. 878, the Armed Forces Tax Fairness Act of 2003, as ordered reported by the House Committee on Ways and Means on February 27, 2003. That version also contained tax provisions similar to those in H.R. 3365, but it also included several different revenue-raising provisions that are not contained in H.R. 3365. Again, CBO's cost estimates reflect that difference.

On June 2, 2003, CBO prepared a cost estimate for S. 1050, the National Defense Authorization Act for Fiscal Year 2004, which authorized a similar increase in the death gratuity, retroactive to September 11, 2001. At that time, CBO estimated that the provision would cost about \$22 million in direct spending. CBO recently received data from DoD on actual deaths for fiscal year 2003. As a result, CBO reduced its estimate to \$20 million.

ESTIMATE PREPARED BY:

Federal Spending: Michelle S. Patterson and Mark Grabowicz
Federal Revenues: Annabelle Bartsch

ESTIMATE APPROVED BY:

Robert A. Sunshine
Assistant Director for Budget Analysis

G. Thomas Woodward
Assistant Director for Tax Analysis